TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

SB 2079 – HB 2037

February 25, 2014

SUMMARY OF ORIGINAL BILL: Requires the State Treasurer to recommend a funding policy for the Tennessee Consolidated Retirement System (TCRS) to the Board of Trustees. Requires the Board of Trustees to adopt a funding policy consistent with the provisions of this bill. The policy contains requirements including but not limited to: the methodology for the required contributions to the system, the maximum amortization period for unfunded accrued liabilities, and a requirement that the budget include 100 percent funding of the actuarially determined contribution (ADC). The bill also enacts the "Public Employee Defined Benefit Financial Security ACT of 2014" which will govern the defined benefit plans of political subdivisions with a pension plan not administered by TCRS.

FISCAL IMPACT OF ORIGINAL BILL:

Other Fiscal Impact – There will be long-term cost savings accrue to local government entities not participating in the Tennessee Consolidated Retirement System as a result of this bill. However, these local governments will incur increased expenditures in the short-term as they will be required to make pension contributions much greater and earlier relative to current law. The extent of any increased expenditures in the short-term, as well as any resulting decreased expenditures in the long-term, cannot be quantified for such impacts are dependent upon several unknown factors.

SUMMARY OF AMENDMENTS (012439, 013050): Amendment 012439 adds language to the original bill authorizing a political subdivision to submit a plan of corrective action to the State Treasurer for consideration if they are unable to meet the funding deadlines established by the bill. The amendment also clarifies the definition of a political subdivision and the method of calculating the ADC. Amendment 013050 clarifies the entities that may adopt a funding policy for a political subdivision and to which employees the political subdivision plan applies.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Unchanged from the original fiscal note.

Assumptions for the bill as amended:

- Allowing political subdivisions to submit a plan of corrective action for consideration will not change the fiscal impact of the original bill.
- Clarifications related to calculation of ADC, entities authorized to adopt a funding policy for political subdivision, and impacted employees will not change the fiscal impact of the original bill.
- According to TCRS, this bill will have no impact to the retirement system as it relates to adopting a funding policy and applying the actuarial methodology to the actuarially determined contribution.
- Each year the TCRS calculates an ADC rate for pension plans that participate in TCRS.
- Local government pension plans that participate in the TCRS are required under current law to make contributions equivalent to 100 percent of their ADC.
- There are approximately 31 local government pension plans that operate outside the TCRS. Of these 31 local governments, approximately 13 do not make an annual contribution equivalent to 100 percent of the ADC mandated for TCRS participants.
- Provisions of this bill will require local governments that do not participate in TCRS to also make contributions equal to 100 percent of the ADC. This will result in an acceleration of funding for existing unfunded liabilities of these local government pension plans.
- Local governments not making fully funded contributions will be allowed a five-year incremental phase in period to meet the 100 percent of the ADC requirement.
- The cumulative unfunded liability by all non-participating local governments is estimated to be approximately $86.4 million.
- There will be a significant long-term savings for such local governments that accelerate pension contributions. For example, and assuming an annual rate of 7.5 percent, a $2,000,000 pension liability due and payable in ten years (or in FY24-25), could be funded in FY14-15 for $970,388. To realize these savings however, the applicable local government would have to make contributions much earlier, and thus subject themselves to higher relative expenses in the short-term. Any precise net impact to the applicable local governments is dependent on several unknown factors such as the extent to which a contribution is accelerated and the rate of interest that an accelerated contribution could earn relative to the contribution made and the rate earned in the absence of the bill. As a result, the net impact to local governments cannot be quantified with specificity.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

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